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No. 04-480

IN THE

Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., ET AL.,

Petitioners,

v.

GROKSTER, LTD., ET AL.

Respondents.

On Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit

BRIEF OF THE BUSINESS SOFTWARE ALLIANCE AS AMICUS CURIAE SUPPORTING PETITIONERS

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INTEREST OF AMICUS CURIAE[1]

The Business Software Alliance ("BSA") is an association of the world's leading software and hardware technology companies. They create and supply much of the software and hardware infrastructure for personal computers and the Internet and are responsible for 90% of the world's office productivity software. BSA members include Adobe, Apple, Autodesk, Avid, Bentley Systems, Borland, Cadence Design Systems, Cisco Systems, CNC Software/Mastercam, Dell, Entrust, HP, IBM, Intel, Internet Security Systems, Macromedia, McAfee, Microsoft, RSA Security, SolidWorks, Sybase, Symantec, UGS and VERITAS Software.

BSA members have compelling interests in both copyright protection and technological progress. As creators of software products that are subject to significant piracy, they have a strong interest in effective liability rules for copyright infringement, including secondary liability rules. At the same time, as leading developers of software and hardware technologies, they want to ensure that rules of secondary liability for copyright infringement do not impede or hamper technological innovation.

BSA members rely on and support strong copyright protection for their software products. BSA members suffer enormous financial losses from copyright infringement, estimated at $6.5 billion in the US alone in 2003, *see BSA and IDC Global Software Piracy Study 2004, available at http://www.bsa.org/globalstudy/.* Illegal copies of BSA member's software products are widely available on illicit file sharing networks. BSA members therefore want to

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[1] Petitioners and Respondents have filed letters with the Court consenting to all amicus briefs. No party to this case authored any part of this brief and no person or entity, other than amicus BSA, made any monetary contribution to it.

ensure that secondary liability rules provide an effective tool for civil copyright enforcement action against all those whose conduct demonstrates material involvement in copyright infringement.

BSA members also want to ensure that secondary copyright liability rules do not limit technological innovation and product development. Accordingly, BSA members urge this Court to leave intact its decision in *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) ("*Sony Betamax*"), because any erosion of the defense established in that case would chill innovation and product design by developers of general purpose and multi-use technologies.

BSA members invest billions of dollars annually in developing general purpose and multi-use software and hardware technologies. These technologies – which are designed for business, educational, government, home and other uses and are employed by billions of people worldwide – permit the copying, playback, and transmission of digital content.[2] A key feature of virtually all these technologies is that they enable collaboration and information sharing by allowing content to be accessible to other users.

These technologies increasingly are network-enabled, with built-in communication functions to connect to other software, computers, and servers in order to facilitate both collaboration between creators of works and the dissemination of that information to audiences worldwide. They thereby provide the infrastructure for local networks

[2] BSA members are also leading developers of encryption-based copy protection and digital rights management technologies that are used or expected to be used by publishers and music and motion picture distributors, including many of the Petitioners, to prevent unauthorized duplication, playback or re-transmission of their copyrighted works by consumer electronic devices and networked computers.

and the Internet, as well as the innumerable services that such networks and the Internet make possible. Accordingly, BSA members view technology that enables users to exchange information, including peer-to-peer technology, as a critically important component of future product innovation. This is especially true of peer-to-peer architectures because they make efficient use of the steadily growing distributed processing and storage capacity of networked computers.

Expansion of secondary copyright infringement liability could cause societal losses that far outweigh any gains from deterring infringement. BSA members fully appreciate the significant financial losses that result from illicit file sharing and other forms of copyright infringement. But given the importance of the information technology sector and its contribution to the productivity of the US economy, those losses are likely to be outweighed by the potential harm to that sector, and to the public, that could result from changes to existing rules of secondary liability that would suppress innovation and the development of new technologies.

Estimates of losses from infringement of US movie and music copyrights on a global basis stand, conservatively, at $7.2 billion annually.[3] The software industry estimates global losses of another $32 billion annually from piracy.[4] By comparison, the US Department of Commerce estimates that domestic spending on information technology equipment

[3] *See* http://www.riaa.com/issues/piracy/default.asp (Recording Industry Association of America estimates piracy losses to the music industry of $4.2 billion annually); http://www.mpaa.org/anti%2Dpiracy/ (Motion Picture Association of America estimates losses to the US movie industry of $3 billion annually, excluding Internet piracy).

[4] *See* http://www.bsa.org/globalstudy/ (Business Software Alliance estimates losses to the business software industry of $6.5 billion annually in the US, and $29 billion annually on a global basis); http://www.theesa.com/piracy.html (Entertainment Software Association estimates losses to the entertainment software industry of $3 billion annually).

and software exceeds $500 billion annually, while estimated annual sales by US information technology companies and their overseas affiliates exceed $1 trillion annually. Beyond these figures, by enhancing output across the economy, the information technology sector is estimated to have generated 28% of GDP growth in the US economy as a whole.[5]

If the Court were to modify or abandon the long-standing *Sony Betamax* rule, the resulting uncertainty would likely compel creators of general purpose, multi-use products and technologies, at the very least, to forgo or delay introducing innovative products or product features. This, in turn, would slow the rate of product innovation in this country and put US companies at a competitive disadvantage. Moreover, the costs, and associated reductions in available productivity gains, would fall on all the honest users of the technology, not just the relatively few who use their computers and software for infringement.

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[5] A senior Commerce Department official recently stated that "[t]he [information and communications technology] sector . . . represents just 7% of US businesses, yet between 1996 and 2000 it generated 28% of GDP growth . . . created jobs at almost twice the pace of the rest of the private sector . . . was responsible for two-thirds of productivity growth . . . and helped reduce inflation." http://www.commerce.gov/opa/speeches/Bodman/2002_Sept_05_USIreland_panel.htm.

Likewise, Federal Reserve Chairman Alan Greenspan has testified before Congress that "[e]conomists endeavor to describe the influence of technological change on activity by matching economic output against measurable economic inputs: quality adjusted labor and all forms of capital. They attribute the fact that economic growth has persistently outpaced the contributions to growth from labor and capital inputs to such things as technological innovation and increased efficiencies of organizations that are made possible through newer technologies. For example, since 1995 output per labor workhour in the nonfarm business sector – our standard measure of productivity – has grown at an annual rate of about 2 percent. *Approximately one-third of that expansion appears to be attributable to output growth in excess of the combined growth of inputs.*" http://www.federalreserve.gov/boarddocs/Testimony/1999/19990614.htm (emphasis added).

The pace of technological change is rapid. A large and growing variety of products and technologies are involved in the broader structure of the Internet. All innovators face great uncertainty in predicting which products and technologies will find market acceptance, how their technologies will interact with other elements of the Internet, and how customers will put them to use. Technologies that are market-leading today may become obsolete in just a few years as a result of shifts in the cost and performance of basic technology components, like processors, software, memory chips, and transmission protocols. In these circumstances, it is virtually impossible for a court, on the basis of a single set of facts that are not yet fully developed involving the specific technology used by the Respondents in this case, to anticipate the ultimate consequences of any substantial change in secondary copyright liability rules. These considerations support reaffirmation of the *Sony Betamax* defense, as well as clear guidance to the lower courts regarding its scope.

* * *

With the significant interests that BSA's members have in both technological innovation and protection of copyrights, BSA urges the Court to reject any proposed changes to the *Sony Betamax* rule of secondary liability. Such changes are not justified, particularly when, for reasons discussed in Part II, the Ninth Circuit did not fully consider the secondary liability principles that can be applied in this case in ways that do not threaten innovation or legitimate information technology companies.

SUMMARY OF ARGUMENT

This Court should reject any arguments that would modify the defense to secondary liability for copyright infringement established in *Sony Betamax*. In that case the Court held that the manufacture, distribution and advertisement of a product do not constitute contributory infringement, if the product is capable of substantial non-infringing uses. *Sony Betamax* established a fair balance between providers and users of multi-use and general-purpose products and technologies that are capable of substantial non-infringing uses, on the one hand, and copyright owners seeking to protect their works, on the other. *Sony Betamax* also provides a clear and predictable test upon which BSA members and many others like them have for more than two decades relied in designing, manufacturing, advertising and distributing their technologies.

In reaffirming *Sony Betamax*, the Court should make clear that customary conduct ancillary to distribution of technology – like general advertising, product support and upgrades, as well as conveying other information to consumers about the use of a particular technology – lies within the boundaries of the *Sony Betamax* defense. The Court should also reaffirm *Sony Betamax's* clear holding that products or technologies *capable* of substantial non-infringing uses lie within the defense, so that there is no requirement to present evidence of current actual commercial non-infringing uses.

In reaffirming the *Sony Betamax* defense, the Court should reject the modifications to that defense proposed by Judge Posner in *In re: Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003): (1) The *Aimster* approach is unsuited for application by courts, which would be placed in the position of assessing untested alternative technologies and hypothesizing about their costs and benefits; (2) that approach can be applied only after a product has been

introduced to the marketplace, leaving product designers with no reliable basis upon which to predict their liability; (3) the *Aimster* approach erroneously assumes that technology companies, acting alone, can minimize or eliminate piracy occurring on peer-to-peer networks; and (4) the *Aimster* formulation is dicta unnecessary to the decision in that case.

In reaffirming the *Sony Betamax* defense, this Court should also make clear that conduct materially and knowingly contributing to infringement, by encouraging or teaching the use of technology for specific infringing purposes, lies outside that defense. The Ninth Circuit seemed to recognize this proposition. However, it applied the wrong legal standards in ruling for Respondents on that issue when it concluded that Petitioners "must demonstrate that the defendant had reasonable knowledge of specific infringing files" – that is, actual knowledge of infringement. Pet. App. 10a. It is well established that a party charged with materially contributing to infringement, through conduct outside the scope of the *Sony Betamax* rule, can have liability for contributory infringement if it has either actual or constructive knowledge of such infringement. Because the Ninth Circuit incorrectly applied the standard for contributory liability to the evidence in the record of this case, the decision below should be vacated and remanded to the Ninth Circuit for further proceedings.

ARGUMENT

I. THE COURT SHOULD PRESERVE THE HOLDING OF ITS *SONY BETAMAX* DECISION AND REJECT THE MISGUIDED APPROACH OF *AIMSTER*

A. *Sony Betamax* Strikes a Fair Balance Among Competing Interests and Provides Technology Companies With The Certainty Necessary For Designing Multi-Use Technologies

In *Sony Betamax*, this Court decided that the design, distribution and customary advertising of multi-use products and technologies capable of both infringing and non-infringing uses cannot provide the basis for holding the provider or distributor of that technology secondarily liable for copyright infringement when others use the technology to infringe.[6] This affirmative defense applies where a technology is "capable of substantial" or "commercially significant" non-infringing uses, 464 U.S. at 442,[7] and the manufacturer or distributor "has had no direct involvement with any infringing activity," *id.* at 447.

In crafting the *Sony Betamax* defense, this Court struck the appropriate balance between "competing claims upon the public interest." 464 U.S. at 431 (quotations omitted). It recognized the "copyright holder's legitimate demand for effective – not merely symbolic – protection of the statutory monopoly [of copyright.]" *Id.* at 442. At the same time, it balanced this protection against the equally important objective of ensuring that copyright's statutory monopoly is not extended to a degree that hampers legitimate commerce and the right of third parties to "engage in substantially unrelated areas of commerce." *Id.*; *see also id.* at 446.[8]

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[6] The Seventh and Ninth Circuits disagree as to whether the *Sony Betamax* defense applies only to contributory liability, *see A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001), or to both contributory and vicarious liability, *see Aimster*, 334 F.3d at 654. BSA submits that *Sony Betamax* applies to both forms of secondary liability, and asks the Court to clarify the point in this case. Although *Sony Betamax* uses the terms contributory infringement and vicarious liability interchangeably, the district court in the *Sony Betamax* case separately analyzed contributory infringement and vicarious liability issues, *see Universal City Studios, Inc. v. Sony Corp. of America*, 480 F. Supp. 429, 459-62 (C.D. Cal. 1979), and this Court discussed them both under the rubric of "liab[ility] for infringement committed by another." 464 U.S. at 434-35. The considerations that led the Court to adopt the substantial non-infringing use defense in *Sony Betamax* – the interest of consumers in using products for non-infringing purposes; the interest of non-plaintiff copyright owners in expanding their markets through such uses; and the interest of manufacturers in developing technologies to satisfy those interests – apply with equal force to both contributory infringement and vicarious liability.

In concluding that the *Sony Betamax* rule applies only to contributory liability, the Ninth Circuit cited the Nimmer copyright treatise. *See* 239 (continued...)

F.3d at 1022. The Nimmer treatise does not, in fact, endorse this limit on *Sony Betamax* and the practitioner's article relied on nothing other than the RIAA's appellate brief in the *Napster* case. In any event, BSA submits that there is no legal or public policy reason for drawing a distinction between contributory and vicarious liability for purposes of the *Sony Betamax* defense.

[7] Although the Court used both the phrase "capable of substantial non-infringing uses" and the phrase "capable of commercially significant non-infringing uses" in its opinion, the Court does not appear to have intended that the phrases have different meanings. The two phrases appear in contiguous sentences in the opinion and the Court seems to have been merely restating that "substantial" non-infringing uses can be alternatively expressed as "commercially significant" non-infringing uses. Accordingly, for simplicity, this brief will use the "capable of substantial non-infringing uses" formulation.

The Ninth Circuit in its opinion below apparently interpreted the phrase "commercially significant" to impose a requirement that the non-infringing uses have "commercial viability." Pet. App. 12a. This phrase, which is nowhere used in the *Sony Betamax* decision, potentially carries a connotation of profitability, revenues or marketplace success that this Court should clarify is not required for the *Sony Betamax* defense.

[8] "[T]he business of supplying the equipment that makes such copying feasible should not be stifled simply because the equipment is used by (continued...)

These third parties include not only the providers and distributors of new technologies, but also those who use the technologies for non-infringing purposes, *id.* at 443, as well as other copyright owners with an interest in reaching new audiences for their works, *id.* at 446.

Under the *Sony Betamax* rule, society is able to reap the benefits of new technologies, even those that may be put to infringing purposes, so long as they are capable of substantial non-infringing uses. At the same time, the rule also benefits copyright holders insofar as they can open up new markets and venues for their works, *e.g.*, the VCR and portable digital music players. However, secondary liability still applies to technology vendors engaged in specific conduct constituting "direct involvement" with infringing uses of that technology. 464 U.S. at 447. In that situation, liability is imposed not because the vendor manufactured, distributed, or advertised the technology that is capable of substantial non-infringing uses – conduct that continues to be protected under *Sony Betamax* – but rather because of other conduct directed to infringing uses of the technology.

In striking this balance between competing interests, *Sony Betamax* provides a clear and predictable test for innovators and for the courts. The creators of, or investors in, new technologies that are capable of substantial non-infringing uses can design, manufacture, advertise, distribute and offer those technologies to the market for such uses without fear of being found secondarily liable. Innovators need only refrain from taking further actions that materially assist or encourage specific infringing uses. Technology companies have relied upon this bright-line test and invested billions of dollars in research and development over the past

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some individuals to make unauthorized reproductions of [plaintiff's] works."

two decades, resulting in unprecedented technological progress that has directly benefited users worldwide.

And just as *Sony Betamax* has provided innovators with an objective and easy-to-apply standard, it also has provided courts with a clear rule of decision – saving them from assessing alternative, highly technical and entirely speculative design decisions, weighing hypothetical infringing versus non-infringing usage, or attempting to discern a technology developer's state of mind. Thus, the *Sony Betamax* defense has been utilized effectively in the technology context, thereby facilitating the design and distribution of numerous important technology innovations.

In reaffirming *Sony Betamax*, this Court should make clear that technologies need only be "capable" of substantial non-infringing uses to qualify for the *Sony Betamax* defense. It should do so because experience demonstrates that the uses to which customers put new technologies evolve and mature over time as the marketplace for the technology develops. Indeed, many of those uses were not even contemplated by the developers of such technology. By its focus on the non-infringing uses of which a technology is "capable," the *Sony Betamax* test is objective and can be easily applied at the summary judgment stage, mitigating the burden of frivolous litigation. *See, e.g., Matthew Bender & Co., Inc. v. West Publishing Co.*, 158 F.3d. 693, 706-07 (2d Cir. 1998).

Moreover, the defense recognized in *Sony Betamax* included Sony's general advertising of its Betamax players: There was "no evidence that any of the [infringing] copies made ... were influenced or encouraged by [Sony's] advertisements." 464 U.S. at 438 (quotations omitted; second alteration in original). The Court should reaffirm that customary conduct – like general advertising, customer service, maintenance services, product manuals, upgrades and other incidental technical support and services that accompany the distribution of technologies to the public –

should not deprive a party of the *Sony Betamax* defense against secondary liability. Secondary liability should instead be found only where there is evidence that the defendant knowingly used such support mechanisms or other communications to teach or give substantial and material encouragement to specific infringing uses. *Cf. Aimster*, 334 F.3d at 651 (noting that because the only examples in Aimster's tutorials explained how to download copyrighted titles, "the invitation to infringement that the Supreme Court found was missing in *Sony*"). A contrary rule would deprive users of bona fide support and maintenance services that they expect and need in order to enjoy the full benefits of innovative technologies.

B. The Court Should Reject The Seventh Circuit's Dicta In *Aimster*

Judge Posner, writing for the Seventh Circuit in *Aimster*, decided that Aimster had failed to submit evidence that its service was capable of substantial non-infringing uses. Thus, the *Sony Betamax* defense was not available, and liability was fairly assigned to Aimster's culpable behavior based on existing principles of secondary liability. But Judge Posner, nonetheless, suggested in dicta that *Sony Betamax* should be jettisoned in favor of a dramatically different approach to secondary liability. Instead of ending the inquiry upon a finding that a technology is capable of substantial non-infringing use, under the *Aimster* dicta the focus would shift to a determination of whether a product has *actual* substantial infringing uses. If so, a court would then have to balance the harm from infringing uses against the cost of hypothetical design changes that would, again hypothetically, reduce the level-of infringement. Under this approach,

> [e]ven where there are noninfringing uses of an Internet file-sharing service, moreover, if the infringing uses are substantial then to avoid liability as a contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses.

334 F.3d at 653.

The adverse implications of the *Aimster* theory for the technology industry, and its impact on the public, compel BSA to urge the Court to reject it in the clearest terms possible. In BSA's view, no outcome in this case could have a more chilling effect on innovation than this Court's endorsement of the *Aimster* dicta.[9] Technology design decisions would no longer be premised on the desire to expand existing technology uses and create new markets. Instead, such decisions would be significantly constrained by efforts to avoid liability for possible misuses. Thus, many new features with potential benefits for consumers would never be included in technologies subject to such a test. The Court should firmly reject any invitation to replace the clear protections of *Sony Betamax* with an ill-defined test that would be both judicially unmanageable and difficult – if not impossible – to comply with. That test would also severely circumscribe the goals of copyright to promote the progress of useful science and the arts.

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[9] Significantly, the dissent in *Sony Betamax* proposed a similar test that would assess the proportion of infringing versus non-infringing uses. The majority declined to endorse this approach, recognizing that to do so would mean denying the public access to the potential of the technology involved. 464 U.S. at 444 ("Whatever the future percentage of legal versus illegal home-use recording might be, an injunction which seeks to deprive the public of the very tool or article of commerce capable of some noninfringing use would be an extremely harsh remedy, as well as one unprecedented in copyright law" (quoting the district court, 480 F. Supp. at 468) (quotations omitted)). The majority also declined to consider the alternative designs proposed by the *Sony Betamax* plaintiffs, *see id.* at 493 n. 42 and 494 (Blackmun, J., dissenting), focusing instead on potential uses of the technology as it was put on the market by Sony.

The *Aimster* approach should be rejected for several additional reasons. First, it would create an unpredictable climate for development of new technologies. The *Aimster* test assumes that technology providers have hypothetical technologies available that can single-handedly eliminate or minimize infringement. Were that the case – which it is not – the *Aimster* approach would force courts to assess these alleged alternative technologies and weigh their costs versus their speculative benefits, before complex design changes can even be tested for technical feasibility or measured by consumers' actual use in the marketplace. It is hard to imagine a task less suitable for judges or juries than making determinations about the reasonableness of such hypothetical alternative design decisions.

The process of searching for a file on the Internet illustrates this point. The technologies involved in this task may include a computer, cell phone or similar device; microprocessors and memory chips; an operating system; an Internet browser; graphics software; security technologies; Internet access software; a router to direct the search; and web hosting software and hardware technologies, among other products. A different developer is likely to have designed each of these technologies. It is wholly unpredictable which or how many of these developers would have the burden to redesign the technologies under the *Aimster* rule. What is clear, however, is that changes to one product will likely have a cascading effect on other products and thereby increase expenses, curb the development of innovative technologies, and deprive the public of their potential benefits.

In addition, adoption of the *Aimster* approach would replace *Sony Betamax* with a rule that can be applied only after the technology is in the marketplace – at which time the actual uses of the technology may be different from those the developers expected. Such a rule would give product designers no reliable basis on which to predict their liability.

Unlike single purpose products such as toasters, laundry detergents, or car seats, where consumer uses are largely predictable, uses of multi-purpose computers and software are highly dynamic and vary considerably from user to user. Because accurate forecasting of the range and proportion of future uses is virtually impossible (being limited only by the creativity of end users), legal tests based on these factors would be completely unworkable.

Even after a technology is introduced, an *Aimster*-like test would offer no clear guidance to technology developers in assessing a substantial number of determinative factors: Is the amount of infringing use measured as a percentage of total use or by the alleged financial losses to copyright owners? When after product introduction should the proportion of infringing versus non-infringing uses be assessed? What proportion does the "disproportionately costly" standard require? Which costs (fixed and variable) should be balanced against which losses (particularly given the Seventh Circuit's statement that the copyright owner need not prove financial loss from the infringing use)? Over what period of time? How can the test take into account the significant costs to other parties (and to society as a whole) of products designed to avoid liability or redesigned to mitigate liability? How can other critical factors be weighed, such as increased design and production costs and harm to the public, if it is deprived of legitimate uses of forgone functionality and confronted with performance inefficiencies to accommodate speculative antipiracy measures? Should the impact of hypothetical measures on the product's potential non-infringing uses be taken into account? In short, the *Aimster* approach's purported simplicity is deceptive, and its negative ramifications are staggering.

Faced with potential liability for design decisions that cannot be quantified and weighed until patterns of user behavior become clear, prudent companies would be forced to inject company lawyers much further into the design

decisions of their engineers, substituting legal judgments based on pure conjecture for the creativity and imagination of engineers. Many would react to this uncertainty and legal risk by foregoing the introduction of new products and features that would have many valid and beneficial non-infringing uses, by burdening products with features that might or might not slow infringing uses, but definitely would increase costs and slow performance for all users.

Finally, BSA cannot envision any way that technology companies could meet the *Aimster* test in practice. These companies have spent hundreds of millions of dollars and many years seeking a solution to digital piracy. Their experience demonstrates that no single solution exists. Instead, preventing online infringement – including in the context of peer-to-peer technologies – depends on the content owner's choices involving the original physical and online methods of distribution; the unique character of hardware and software made by a variety of companies; the presence or absence, and robustness, of technological protection measures applied by the content owner; the networks, including the Internet and its service providers, over which either authorized or infringing copies are made and distributed to users; and the effectiveness of copyright enforcement on an international basis. The majority of these choices are not within the control of any technology provider or, for that matter, of the courts.

The *Aimster* balancing test is a poor substitute for market forces and private negotiation between content and technology suppliers. It would radically alter the balance of existing market mechanisms and private industry negotiations that are already driving the development and adoption of appropriate copy protection and digital rights

management mechanisms that have begun to materially reduce the incidence of copyright infringement.[10]

II. THIS COURT SHOULD REMAND THE CASE FOR EVIDENTIARY PROCEEDINGS REGARDING RESPONDENTS' SECONDARY LIABILITY

BSA argues in Part I that this Court should preserve the principles established in *Sony Betamax* and reject secondary infringement arguments based upon a defendant's supply of technology and customary service to and communications with its customers. But this should not end the Court's review as to whether the Ninth Circuit properly analyzed the secondary liability issues in this case.

In this section BSA will show that the Ninth Circuit may have erred in its application of *Sony Betamax* by failing to apply established principles of secondary liability to evidence in the record that should have been properly considered in determining whether Respondents engaged in conduct that went beyond that protected by *Sony Betamax*.[11] As we have

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[10] Congress has specifically recognized the importance of industry leadership in this context. In 1998, Congress adopted legislation that looks directly to the outcome of private industry standard setting to identify appropriate copy protection technologies. *See* the Digital Millennium Copyright Act, 17 U.S.C. § 512(i) (conditioning eligibility for Internet Service Provider safe harbors from contributory and vicarious liability on accommodation and non-interference with "standard technical measures" that have been "developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary multi-industry standards process" and "do not impose substantial costs on service providers or substantial burdens on their systems or networks").

[11] BSA recognizes that the district court's inquiry both as to the technology and Respondents' conduct was limited: "Because Plaintiffs principally seek prospective injunctive relief, the Court at this time considers only whether the *current versions* of Grokster's and StreamCast's products and services subject either party to liability. This Order does not reach the question whether either Defendant is liable for (continued...)

argued, *Sony Betamax* does not protect Respondents if, as alleged in this case, they have engaged in any such conduct and it amounted to contributory infringement.

Under *Sony Betamax*, where a technology is capable of substantial non-infringing uses, and the manufacturer or distributor "has had no direct involvement with any infringing activity," 464 U.S. at 447, the development, general advertising, distribution, and ordinary customer service, as well as related communications, cannot give rise to secondary liability. To the extent, however, that other activities go *beyond* these activities and instead entail knowing and material encouragement of infringement – such as teaching how to use the technology for particular infringement – *Sony Betamax* provides *no* shield for these activities. *See Adobe Systems Inc. v. Southern Software, Inc.*, No. C95-20710 RMV (PVT); 1998 U.S. Dist. LEXIS, at *26 n.16 (N.D. Cal. Feb. 2, 1998) ("Sony Corp. does not apply here because SSI is not suing Ares for merely distributing FontMonger but for contributing to the alleged infringing conduct of King."). In these circumstances, contributory liability and appropriate remedies are imposed, not by virtue of the distribution of the technology itself, but rather upon the manufacturer's or distributor's conduct that knowingly and materially encouraged infringement.

Application of the contributory liability test (knowledge plus material contribution encouraging infringement), of course, presupposes a finding of direct infringement. Moreover, in assessing the knowledge of an alleged secondary infringer, courts should take into account whether the direct infringement is clear and unambiguous, or whether reasonable questions exist as to the necessary elements of direct infringement. In appropriate cases such questions

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damages arising from *past* versions of their software, or from other past activities." Pet. App. 27a-28a (emphasis in original).

could, for example, go to the subsistence and scope of copyright protection in the work, the existence of authorization to use the work, the applicability of statutory defenses to copyright infringement, and whether the alleged direct infringement involves literal or non-literal copying of the work. Applying such an analysis would, for example, find the requisite knowledge to impose secondary infringement liability in cases where trafficking in infringing copies is being encouraged, or where the alleged secondary infringer has encouraged the making of obviously infringing copies.

Imposing liability for conduct that knowingly and materially encourages infringement is consistent with both the rationale and the facts involved in *Sony Betamax*. This ensures that a product or technology that is capable of non-infringing uses, which benefits consumers and innovation, is not removed from the marketplace while still holding the defendant accountable for its knowing and material conduct. *Sony Betamax* ensures that technology providers can engage in useful innovation and can put their multi-use technologies into the stream of commerce, as well as provide ordinary customer service and communication without fear of thereby being held liable for the infringing acts of their customers. It also ensures that users remain free to use these technologies for non-infringing purposes. However, *Sony Betamax* was never intended to eliminate all exposure for product and technology providers, no matter what their "direct involvement," or knowing encouragement or material assistance in infringing conduct. To the contrary, in concluding that Sony was not secondarily liable for its customers' infringing conduct, this Court relied on the district court's findings that "Sony had no direct involvement with any Betamax purchasers who recorded copyrighted works off the air," 464 U.S. at 426, and that "no employee of Sony, Sonam or DDBI had either direct involvement with the allegedly infringing activity or direct contact with purchasers

of Betamax who recorded copyrighted works off-the-air," *id.* at 438 (quoting district court, 480 F. Supp. at 460 (quotations omitted)). Applying the law to these facts, this Court concluded that the case "plainly does not fall in [the] category" of secondary infringement. *Id.* at 437-438.

On the very different facts of this case, the Ninth Circuit confused the appropriate inquiry, and this Court should remand for that reason. Rather than applying traditional principles of contributory liability to those activities of Respondents that extended beyond the conduct protected by *Sony Betamax*, the Ninth Circuit held that, if a technology product has substantial non-infringing uses, then a "higher" standard of knowledge is required to impose contributory liability for *any* conduct in which the defendant engages. Pet. App. 12a. *See also id.* at 10a ("[I]f the product at issue *is* capable of substantial or commercially significant non-infringing uses, then the copyright owner must demonstrate that the defendant had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement." (emphasis in original)).

This was clear error. The correct rule instead is that, while the development, general advertising and distribution of a technology with substantial non-infringing uses, as well as related customer service and communications, *never* expose a party to secondary liability regardless of that party's knowledge, conduct that extends beyond and includes the knowing encouragement of specific acts of infringement is subject to the traditional standards of secondary liability, under which either actual or constructive knowledge may be sufficient for contributory liability. *See Gershwin Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (holding that it is sufficient to prove that the party charged with materially contributing to infringing conduct had "knowledge, or reason to know"); *see also Cable/ Home Comm. Corp. v. Network Productions, Inc.*, 902 F.2d 829, 846 (11th Cir. 1990) ("Even if [defendant] could prove that

he did not know that the subject computer program was copyrighted, actual knowledge is not required. All that must be shown is that [he] had reason to know.").

The Ninth Circuit erred, in still another way, in its analysis of the "material contribution" prong of contributory liability. It focused almost exclusively on whether the Respondents provided the "site and facilities for infringement," Pet. App. 14a (quotations omitted). To be sure, recent Ninth Circuit precedents involving contributory infringement took that form, but there are many other ways in which parties "with knowledge of the infringing activity . . . materially contribute[] to the infringing conduct of another" and thus become liable for it. *See, e.g., Gershwin*, 443 F.2d at 1162-63; *Cable/Home*, 902 F.2d at 846-47; *A&M Records, Inc. v. Abdallah*, 948 F. Supp. 1449, 1456-57 (C.D. Cal. 1996). If, for example, the Respondents were advising or materially assisting users to download specific copyrighted titles, it should make no difference whether they also provided the "site or facilities" where the infringement took place.

Because of its preoccupation with the "site and facilities" issue, the Ninth Circuit appears to have brushed aside evidence that the Petitioners offered below that went beyond Respondents' provision of software and ancillary bona fide customer service. That evidence could be read to suggest that Respondents advised and materially assisted users in acts of infringement, such as how to download infringing copies of copyrighted works.

For example, Petitioners presented evidence to suggest that Respondents specifically promoted the availability of infringing content to both users and advertisers, JA785-86, JA844, JA854-56, JA936-37; and had customer support personnel give email users advice on how to download specific infringing files, JA768-73, JA939-40.

The record also contains evidence that on at least one occasion, Respondents explicitly encouraged infringement in responding to a user complaint about the lack of Beatles, Elvis Presley and other popular recordings by replying that "[w]e do not control what users put on the site," so "[m]aybe you should load some up." JA808. In addition, the record suggests that Respondents used the availability of obviously copyrighted works as examples to entice use of their technology: e-mails from StreamCast advising users on how to download copyrighted motion pictures, including, *inter alia*, *The Matrix*, *Tomb Raider*, and *Pearl Harbor*, JA811, JA813, JA820, JA941-42, and e-mails from Grokster advising how users can download copyrighted works, such as *Lord of the Rings*, *Resident Evil*, and *Big Fat Liar*. JA941-44.

Upon remand, the lower courts should re-examine the conduct of the Respondents, to the extent that it goes beyond simply developing, manufacturing, distributing, general advertising, and providing customary services and communications for a technology capable of substantial non-infringing use, by applying the well-established criteria that courts have used for decades to assess claims of secondary liability.[12]

"Direct involvement" in infringement, to use the language of *Sony Betamax*, is the dividing line between the conduct protected from secondary liability under *Sony Betamax* and conduct that is not. The settled law of secondary liability properly creates the incentives to prevent such conduct, just as it properly stops short (under the *Sony Betamax* rule) of intruding into design, development,

[12] Under the traditional *Sony Betamax* principles, the Ninth Circuit appropriately affirmed the District Court's refusal to grant injunctive relief against distribution of the current version of the software itself. It is the potentially offending acts that may have amounted to secondary infringement that were inappropriately dealt with by the court below.

advertising, support and distribution decisions regarding technologies that are capable of substantial non-infringing uses.

A remand of this case to the Ninth Circuit is necessary to correct its errors in considering Respondents' conduct. Its decision should be vacated and remanded so that the lower courts can apply the correct legal standards to the existing record, and, if needed, can supplement that record.

CONCLUSION

For the reasons stated above, the decision of the Ninth Circuit should be vacated and the case should be remanded for further proceedings.

Respectfully submitted,

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